



## 2022 Market Outlook

# Continuous disruption

Megatrends are continually shaping the global operating environment and impacting the way we work, live and play. Although these trends can be disruptive, they present possibilities to invest in new areas. We highlight a few that will offer new investment opportunities in the decades ahead.

Megatrends are large-scale shifts that will have a deep and long-lasting impact on businesses and societies. Understanding how these transformative trends will impact companies operating in many sectors will be crucial for investors who wish to be part of the new investment narrative.

### INVESTING IN MEGATRENDS

**Climate change, renewable energy, and carbon neutrality** – Understanding China’s goal of reaching peak emissions by 2030 and net carbon neutrality by 2060 has given us insights into the environmental impact of energy consumption and strengthened our conviction to invest in selected electric vehicle (EV) companies and upstream suppliers (e.g. the [separators](#) in lithium ion batteries) in the EV supply chain.

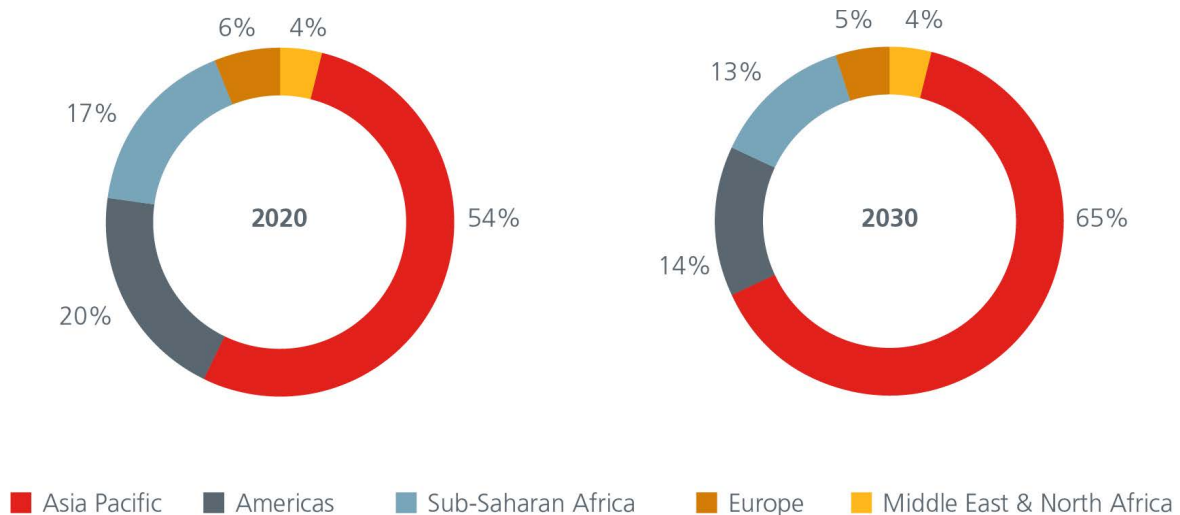
We believe that Taiwan’s well-established semiconductor eco-system stands to benefit from the rising demand for EV globally. EV-related demand would drive advanced semiconductor consumption over the next five years, which should benefit leading Taiwanese foundries and Integrated Circuit design houses.

The increased demand for semiconductors will also benefit companies that produce related components such as advanced IC substrates (ABF or Anjiomoto Build-up Film), which provide electrical insulation of complex circuits for high-performance central processing units.

**Changing demographics** – Asia is on track in the next few decades to become one of the oldest regions in the world as its elderly population is projected to reach nearly 923 million by the middle of this century<sup>1</sup>. Still, there are pockets in the

Source: <sup>1</sup><https://data.adb.org/story/population-and-aging-asia-growing-elderly-population>

Asia's middle-income class is set to grow (Share of the global middle class by region)



Source: Brookings Institution. Middle class = household with incomes between \$11 - \$110 per person/day (PPP) in 2011.

region that continue to enjoy attractive demographic dividends; Vietnam is one such example with a median age of 32.5 years<sup>2</sup>.

At the same time, there is an estimated 2 billion Asians who are members of the middle-income class in 2020 and that number is set to increase to 3.5 billion by 2030. In comparison, the size of the middle-income class in the Americas and Europe is stagnating<sup>3</sup>. The rising middle-income class has been a boon for countries such as Vietnam where economic growth is now no longer largely dependent on agriculture but led by services and industrial activity, supported by the young population.

Asia's changing demographics and growing middle-income population will impact consumption trends.

Asia's changing demographics and growing middle-income population will impact consumption trends. Growing trends such as digitalisation and sustainability are likely to be embraced and adopted. This in turn offers new investment opportunities in financial services, healthcare, consumer goods and green products.

**Digitalisation and increased automation**

– In a recent survey<sup>4</sup>, digitalisation was seen as key in helping ASEAN businesses cope during the pandemic and key in the region's economic recovery going forward. 87% of the micro, small and medium enterprises surveyed indicated that digitalisation automated production processes and helped

Source: <sup>2</sup>World Bank – Vietnam country overview, updated 7 Apr 2021. <sup>3</sup><https://www.weforum.org/agenda/2020/07/the-rise-of-the-asian-middle-class>. The middle class is defined as household with incomes of \$10 to \$100 per day and capita, taking into account purchasing power. <sup>4</sup><https://www.straitstimes.com/asia/increasing-digitalisation-the-way-to-recovery-in-a-protracted-covid-19-crisis-wef-asean-poll>

save time, provided easy access to information, and more options to select goods and services. Digitalisation also provided alternative sources of income during the pandemic.

Financial services is an area that has seen significant advancements from digitalisation. Digital banking and the proliferation of electronic payment wallets have facilitated digital remittance, online investments, and e-commerce activities. In Vietnam, top commercial banks are observed to spend 20%-70% of their capex on digitalisation. According to a Fintech and Digital Banking report<sup>5</sup>, Asia Pacific is expected to see 100 new financial institutions by 2025.

Understanding how technology is evolving through innovations such as 5G, cloud computing, and machine learning and how businesses are adapting their business models have also helped us unearth disruptive investments in the software, e-commerce, and internet sectors.

**Cryptocurrencies** – The future investment potential of cryptocurrencies continues to be a hotly debated topic. Enthusiasts have drawn parallels to gold while skeptics have dismissed it as a fad. Although there appears to be a longer-term potential for this asset, we believe it is still a little early to incorporate it into portfolios to seek diversification benefits.

While gold has clearly been shown to support portfolio performances in periods when a balanced (equity -bond mix) portfolio may be suffering, the sample size is far too limited to draw any firm conclusions for cryptos. Another challenge is to find an appropriate (risk-managed) way to access this space.

## INVESTMENT IMPLICATIONS

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While investors need to be aware of near-term drivers such as inflation, interest rates and GDP growth which may impact the investment outlook, it is important to have exposure to disruptive megatrends that will have significant long-term global implications. When investing in megatrends, investors need to pay attention to the commerciality and sustainability of new business models and the ability of management teams to execute. As some of these nascent businesses are still evolving, investors need to keep track of developments and understand both the opportunities and the risks involved.

One of the biggest risks for new technological breakthroughs and emerging businesses is potential changes in the regulatory landscape and increased government intervention. Finally, even for highly attractive and disruptive megatrends, investors need to constantly take a sanity check to ensure that market valuations have not been extrapolated beyond levels of plausible reality.

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Source: <sup>5</sup>Backbase, a company that offers digital banking platform, and the International Data Corp. (IDC)

## CONTRIBUTORS

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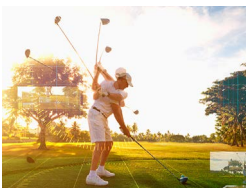
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**Underappreciated Asia**



**China redefined**



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